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International Affairs

Budget function 150 covers all spending on international programs by various departments and agencies. The category includes spending by the Department of State to conduct foreign policy and exchange programs, funds controlled directly by the President to give other nations economic and military aid, and U.S. contributions to international organizations such as the United Nations, multilateral development banks, and the International Monetary Fund. Function 150 also includes financing for exports through the Export-Import Bank. CBO estimates that discretionary outlays for the function will total more than $25 billion in 2003 after hovering around the $20 billion level throughout the 1990s. Repayments of loans and interest income in the Exchange Stabilization Fund account for the negative balances in mandatory spending for this function.

Federal Spending, Fiscal Years 1990-2003 (In billions of dollars)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	Estimate 2003
Budget Authority (Discretionary)	20.0	21.3	20.9	33.3	20.9	20.2	18.1	18.2	19.0	41.5	23.5	24.7	25.2	25.5
Outlays														
Discretionary	19.1	19.7	19.2	21.6	20.8	20.1	18.3	19.0	18.1	19.5	21.3	22.5	26.2	25.5
Mandatory	-5.3	-3.8	-3.1	-4.3	-3.7	-3.7	-4.8	-3.8	-5.0	-4.3	-4.1	-6.0	-3.8	-2.4
Total	13.8	15.9	16.1	17.2	17.1	16.4	13.5	15.2	13.1	15.2	17.2	16.5	22.4	23.1
Memorandum: Annual Percentage Change in Discretionary Outlays	n.a.	3.4	-2.7	12.6	-3.5	-3.3	-8.8	3.5	-4.6	7.8	9.1	5.7	16.4	-2.7

Note: n.a. = not applicable.

150-01—Discretionary

Eliminate the Export-Import Bank, the Overseas Private Investment Corporation, and the Trade and Development Agency

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	586	609	644	684	713	3,236	7,057
Outlays	72	261	437	541	605	1,916	5,307

The Export-Import Bank (Eximbank), the Overseas Private Investment Corporation (OPIC), and the Trade and Development Agency (TDA) promote U.S. exports and overseas investment by providing a range of services to U.S. companies wishing to do business abroad. Eximbank offers subsidized direct loans, guarantees of private loans, and export credit insurance; OPIC provides investment financing and insurance against political risks; and TDA funds feasibility studies, orientation visits, training grants, and other forms of technical assistance. Appropriations in 2003 for Eximbank, OPIC, and TDA are $578 million, $64 million, and $47 million, respectively.

This option would eliminate TDA and the subsidy appropriations for Eximbank and OPIC. The latter two agencies could not conduct any new financing or issue new insurance but would continue to service their existing portfolios. Those changes would save $72 million in outlays in 2004 and $1.9 billion over five years (compared with the 2003 appropriations enacted on February 20, 2003, adjusted for inflation).

Proponents of this option dispute the contribution that those agencies make to the economy. The value of exports supported by the agencies' programs is small—less than 2 percent of total U.S. exports. Moreover, many economists disagree with the claim that promoting exports creates U.S. jobs. They assert that by subsidizing exports, the government distorts business decisions that are best left to occur in free markets. OPIC and Eximbank finance programs that would have trouble raising funds on their own merit. Similarly, those agencies' insurance programs might encourage companies to invest in riskier projects than they would if more of their own funds were at stake.

Opponents of this option argue that the three agencies play an important role in helping U.S. businesses, especially small businesses, understand and penetrate overseas markets. Those agencies level the playing field for U.S. exporters by offsetting the subsidies that foreign governments provide to their exporters, thereby creating U.S. jobs and promoting sales of U.S. goods. By encouraging U.S. investment in areas such as Russia and the states of the former Soviet Union, those agencies may also serve a foreign policy objective.

RELATED CBO PUBLICATIONS: *The Domestic Costs of Sanctions on Foreign Commerce*, March 1999, and *The Role of Foreign Aid in Development*, May 1997

150-02—Discretionary

End the United States' Capital Subscriptions to the European Bank for Reconstruction and Development

(Millions of dollars)	2004	2005	2006	2007	2008	Total 2004-2008	Total 2004-2013
Savings							
Budget authority	0	0	38	39	40	117	329
Outlays	0	0	20	25	30	75	277

The European Bank for Reconstruction and Development (EBRD) supports market-oriented economic reforms by providing loans in the nations of Central and Eastern Europe and the former Soviet Union. Nearly 80 percent of the projects approved in 2000 were in the private sector. At the end of that year, the EBRD had a portfolio of nearly 800 projects with a net value of $11.3 billion.

The United States contributes 10 percent of the capitalization of the EBRD, or $36 million in 2003. The 2003 subscription (the buying of stock) is the sixth installment of an eight-year capitalization agreement with the bank. This option would terminate U.S. subscriptions to the EBRD at the end of the eight-year agreement, saving $75 million in outlays over five years—if the level of U.S. support remains steady. After the U.S. ends its subscriptions, the bank could be privatized.

Proponents of this option say that loans from the United States or public entities to the private sector encourage businesses to make riskier investments than they would otherwise do if their decisions were based purely on market factors. That effect might seem inappropriate for a policy initiative designed to support market-oriented reforms in formerly communist countries. Investments that respond to market conditions, including risk, are more likely to allocate capital in a cost-effective manner and to promote economic growth. Proponents also note that the EBRD is showing a "profit"—that is, its current repayments exceed its current outlays. Thus, the bank is making loans for investments that are potentially viable without subsidies from taxpayers.

Opponents of this option argue that the funds are used to promote investment in a region that only recently made the transition to a market-based economy and that the loans are important to the economic security of those countries. Without institutions such as the EBRD, opponents argue, there would be less private investment and economic growth in the region.

RELATED CBO PUBLICATION: *The Role of Foreign Aid in Development*, May 1997